

IMPACT OF RURAL CREDIT FACILITIES OF MICRO-FINANCE BANKS ON POVERTY ALLEVIATION – THE NIGERIA EXPERIENCE

Onwuka, Ifeanyi Onuka

Udeh, Sergius Nwannebuike

Department of Accounting & Finance,
Godfrey Okoye University, Enugu State, Nigeria

Abstract

The study focused on the impact of rural credit facilities of Micro-Finance Banks (MFBs) on poverty alleviation in Nigeria from 2005-2012. The overall objective of the study was to assess the impact of rural credit facilities of MFBs on rural financial markets and the implication on the rural economy and poverty alleviation. Multi-stage random sampling technique was utilized in the selection of rural MFBs and household respondents. In the first stage, 3 states – Anambra, Imo and Enugu were randomly selected from the 5 states that make the South Eastern Nigeria. Furthermore, from the 77 rural-based MFBs in South Eastern Nigeria, 27 were randomly selected from 27 communities. Finally, 10 household head respondents were selected from each of the 27 communities, making a total of 270 respondents, out of which 265 were successfully administrated with instruments of data collection. Data for the study were collected from primary and secondary sources. Primary data were collected from the respondents with the aid of interview schedule and questionnaire while secondary data came largely from annual financial statements of MFBs as collated and published in statistical bulletins of the Central Bank of Nigeria. Analysis of data collected was done with Multinomial Logistic Regression Model and descriptive statistics such as means and percentages. The study showed, among others, that deposits mobilized from rural communities by MFBs were siphoned out of the communities by way of fixed deposits with commercial banks usually located outside the communities, thereby defeating the sole idea of financial intermediation within the communities. The paper concluded that in spite of modest impact of rural credit facilities from MFBs with respect to deposit mobilization, wide areas for improvement still exist in relation to participation of women in credit facilities, among others. The study recommended the institution of gender equalization policies that would create incentives for increased lending to women.

Keywords: Microfinance Bank, Poverty Alleviation, Rural Development, Economic Development, Credit Facilities

Introduction

Throughout the world, governments have intervened extensively in the financial markets in general and rural financial markets in particular to channel funds to the rural areas in order to help alleviate poverty. The extent of intervention has varied from indirect measures aimed at improving the policy environment (for example, by addressing incentive problems and regulating financial intermediaries) to direct steps to increase or supplant credit provided by private lenders (Adewumi, 2006).

Traditionally, governments have used subsidized agricultural credit programmes to promote rural growth/development throughout the world (Desai & Mellor, 1993). This approach has generally failed to improve incomes and alleviate poverty in rural areas; and led to the mistaken belief that rural credit programmes cannot be profitable (Jacob et al, 1998). The traditional approach to rural finance has been based on the following arguments: government should focus on agriculture to promote rural development; agriculture is undercapitalized; farmers need cheap credit to encourage them to adopt modern technology and to compensate them for policies that are biased in favor of urban dwellers; farmers are too poor to save; and private banks provide little or no credit forcing small borrowers to use money-lenders who charge usurious interest rates (World Bank, 1993; Bamisele, 2011).

Subsidized agricultural credit programs have generally had a limited outreach and resulted in huge costs, with little identifiable impact at the farm level (Odu, 2006). These failures are largely explained by the pursuit of short-term objectives framed in terms of agricultural production gains rather than long-term objectives aimed at the sustained expansion of rural incomes. The emphasis on disbursing cheap agricultural credit has typically resulted in programs with poor credit culture, manifested by dependency on subsidies, low recovery rates, inadequately diversified portfolios, mis-targeting of credit (Khan, 1977), and rent seeking by credit officials and influential farmers (Ladman and Tineermerier, 2004). The tremendous potential for rural savings has also been neglected by the traditional approach and profit-oriented private financial institutions have been crowded out by state-owned rural financial institutions dependent on government subsidies (Ohaegbunam, 2009).

In spite of the fact that direct credit has been criticized greatly and more market friendly approaches have been proposed for some time, many countries have resisted changing the rules under which state-owned financial

institutions operate. However, major reforms of rural credit systems have been launched in several countries including India, Mexico, Nigeria, etc. to ensure that public resources are used more effectively to support the expansion of rural incomes and to reduce poverty (Okorie, 2012).

The new approach had its focus on income expansion and poverty reduction. It makes the case for cost-effective alternatives, such as increased investment in rural infrastructure or in human development to attain these goals (Adams et al, 2004; David and Meyer, 2004; Gonzalez-Vega, 2006; and Vogel, 2008). Advocates of this approach propose that governments should concentrate on establishing a favorable policy environment that facilitates the smooth functioning of rural financial markets while playing a more limited and efficient role in the direct provision of rural financial service. This approach sees the government's main task as creating a conducive environment for private intermediaries in rural financial markets to operate efficiently, in view of the several factors that constraint the smooth functioning of the rural economy. These include poor policy environment, weakly regulated financial sectors, institutional features (legal and regulatory) and specific constraints related to intermediation in rural areas (Owo, 2002; Olashore, 2009; Sadeque, 2010).

Analytical Framework

There are several approaches in evaluating the impact of any project or programme on the various sectors of the economy or on the lives of the intended beneficiaries. They include before/after approach, time series projection otherwise known as counter factual approach, the production function approach, the response model approach and other non-econometric assessment approaches (Yaron, 1992; Ukpog, 1998; Ragazzi, 2001; Soludo, 2011).

However, evaluating the impact of rural financial institutions (RFIs) like micro-finance banks is very difficult because it is rarely clear what the borrowers and depositors would have done in their absence (Virmani, 1984; Soludo, 2011). Therefore, practitioners and academics have developed a new framework for assessing the performance or impact of credit programmes. This framework rests on outreach index and self-sustainability (Yaron, 1992a). It argues that rural financial institutions that provide a broad range of services to targeted clientele in an efficient manner are likely to have the desired impact of expanding incomes and reducing poverty. Therefore, evaluating their performance based on these criteria provides an easily quantifiable proxy of the impact of rural financial intermediation in lieu of a full cost-benefit analysis (Yaron & Piprek, 1997).

This study adopted the outreach index approach in evaluating the impact of micro-finance banks on rural financial intermediation using some

of the relevant indicators of market penetration, relative income level and quality of services offered by the microfinance banks. Subsidy dependence index was not applied in this study as microfinance banks by its concept and design are self-financing and self-sustaining.

Research Context

In recognition of the fact that many rural people do not have access to credit; the Nigerian government conceived the idea of microfinance banks to fill the gaps created by the collateral-based conventional banks that are reluctant or ill-equipped to meet the special credit needs of the rural people who are mostly illiterate farmers and petty traders. The microfinance banking system was institutionalized by Revised Microfinance Banking Act of 2005 (CBN, 2005) with the primary objective of promoting grassroots self-reliant economic development through the provision of finance and other banking services at the local level. The Microfinance Banks like the former Community Banks and Peoples Banks were established to address some of the identified constraints that deny many poor Nigerians access to bank credit. Both People's Bank (which has been merged with Nigerian Agricultural and Co-operative bank) and Community Banks that have been redesigned and re-christened are addressing essentially the same target group, but their mode of operation is conceptually different. The Microfinance Banks are not designed to offer credit at subsidized rates and overlook the need to ensure collateral security for their credit extension but rather to ensure geographical accessibility of banking facilities in the rural communities and the unbanked poor urban dwellers (CBN, 2005). Therefore, each Microfinance Bank is conceived as a self-sustaining financial institution, owned and managed by a community or a group of communities. Its primary purpose is to mobilize deposits and provide credit and other financial services to its customers largely on the basis of their self-recognition and trust-worthiness (Bamisele, 2011). The number of Microfinance Banks rose from 205 in 2005 when the idea was conceived to 883 in 2012 (NDIC, 2013).

The Microfinance banks have functioned for nearly 10 years in Nigeria as rural financial intermediaries with the primary objective of promoting grassroots self-reliant economic development through the provision of finance and banking services among others. Specifically, the banks were expected to fill the gaps created by the conventional banks and informal sources of credit in the rural credit market. These were to be achieved by mobilizing rural savings and providing access to credit to the rural economic operators that need credit for investment (CBN, 2005).

However, reports by the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) in their various publications

and annual reports over the years sees the impact of microfinance banks from the point of view of geographical spread, growth in the number of established banks, total deposits mobilized, total loans/advances granted, and growth in the total assets of the operating microfinance banks. The assessment of the impact of microfinance banks should certainly go beyond the above-mentioned criteria.

Some researchers (see Sagbamah, 2007; Uche, 2008; Onweagba and Okafor, 2009; Ukemenam, 2009) have carried out studies on microfinance banks; but the bulk of their work centered on performance appraisal of microfinance banks using the reporting criteria of CBN and NDIC as stated above. However, Onweagba and Okafor (2009) went ahead of others to investigate the relationship between age of a microfinance banks and the volume of credits granted to women customers in some selected Local Government Areas of Imo State of Nigeria. But none of these studies focused on criteria or investigated issues like:

- a) Are the intermediation functions of microfinance banks of any effect on rural agricultural sub-system?
- b) Are the transaction costs of microfinance banks high or low?
- c) Are the microfinance banks a drain or contributor to rural financial resources (credit)?
- d) Are the gaps that existed toward meeting the credit needs of the rural people before the introduction of microfinance banks closing-up or not?

These questions constitute the research problem and hence the focus of the study.

Objectives of the Study

The overall objective of the study is to assess the impact of rural credit facilities of microfinance banks on the rural financial market and their implication on the rural economy and poverty alleviation. The specific objectives are to determine the:

- a) Effect of socio-economic factors on rural peoples' participation in the rural credit market through the microfinance banks;
- b) Level of outreach and quality of services of microfinance banks in the study area;
- c) Effect of microfinance banks on agricultural input delivery, agricultural production, agro-marketing and processing sub-systems of agriculture;
- d) Levels and structure of deposit mobilized vis-à-vis levels and structure of credit granted by the microfinance banks; and their relationship with length of business experience of the microfinance banks

- e) Respondents perception of the effects of microfinance banks credit facilities on their socio-economic conditions;
- f) To identify the constraints to rural financial intermediation through microfinance banks and make policy recommendations based on research findings.

Methodology

Area of Study

The study covered rural-based Microfinance Banks in the South Eastern States of Nigeria comprising Abia, Anambra, Ebonyi, Enugu and Imo. Of these 5 States, 3 States – Anambra, Imo and Enugu were randomly selected as sample for the study. The study concentrated on the rural microfinance banks and household respondents randomly selected from their respective populations. The study was carried out where illiteracy was widespread and where records of farming and economic activities were often not formally kept.

South Eastern Nigeria has a population of 18,816,443 people (NPC, 2006). It lies between longitude 6° and 8° East of Greenwich Meridian and Latitude 6° and 8° North of the Equator covering an area of about $17,612\text{km}^2$. It is bounded in the North by Benue and Kogi States, in the South by Rivers and Akwa-Ibom States, in the East by Cross River State and in the West by Delta and Edo States. The economic activities of the rural part of the study area varies from predominantly farming to petty trading, craft making, bicycle/shoe repairs, etc. Farmers who engage in a wide variety of ‘off-farm’ and non-agricultural activities especially during the ‘off-farm’ season dominated the population of the study area. Hence economic activities in the study area center largely on food production, processing and marketing. The climate is characterized by uneven high temperatures and seasonal distribution of rainfall from March to November. The area is chosen for the study because it has the second highest number of functional microfinance banks across the country as at 2011 (NDIC, 2012).

Sampling Procedure

In order to ensure that there is even spread in the selection of the sample, the Multi-stage sampling technique was adopted in the selection of rural microfinance banks and household respondents. In the first stage, 3 States namely; Anambra, Imo and Enugu were randomly selected from the 5 States that constitute the study area.

A list of operating and reporting rural-based microfinance banks in each of the 3 selected States was obtained from the Other Financial Institutions Department (OFID) of the Central Bank of Nigeria and these banks were clustered according to Agricultural Zones of their respective

States and samples taken from them as shown in table 1. Of the total number of 77 rural-based microfinance banks contained in the list from the CBN, 27 of them were randomly selected for the study.

Table 1: Agricultural Zones of the Selected States and the Selected Microfinance Banks for the Study

Anambra State

Agricultural Zones	Listed Rural MFBs	Selected MFBs for the Study
A. Aguata	<ol style="list-style-type: none"> 1. Akpo 2. Achina 3. Amesi 4. Amichi 5. Awgbu 6. Isuofia 7. Nkpologwu 8. Ufuma 9. Uga 10. Umuchu 11. Ukpör 12. Utuh 13. Ezinifite 	<ol style="list-style-type: none"> 1. Achina 2. Akpo 3. Awgbu 4. Ezinifite
B. Awka	<ol style="list-style-type: none"> 1. Umuawulu 2. Abogu 3. Adazi-Ani 4. Adazi-Enu 5. Adazi-Nnukwu 6. Enugu-Adazi 7. Nibo 8. Nise 9. Nnokwa 10. Nri 11. Obeledu 	<ol style="list-style-type: none"> 1. Adazi-Enu 2. Nibo 3. Adazi-Nnukwu 4. Obeledu
C. Anambra	<ol style="list-style-type: none"> 1. Awkuzu 2. Umunya 3. Aguleri 	<ol style="list-style-type: none"> 1. Aguleri
D. Onitsha	<ol style="list-style-type: none"> 1. Ihembosi 2. Alor 3. Okija 4. Oraifite 5. Ozubulu 6. Uli 7. Oraukwu 8. Abatete 9. Umuoji 10. Oba 	<ol style="list-style-type: none"> 1. Oraukwu 2. Abatete 3. Oba
Total	37	12

Imo State

Agricultural Zones	Listed Rural MFBs	Selected MFBs for the Study
A. Orlu	1. Afor Iseke 2. Akatta 3. Akokwa 4. Dikenafai 5. Ebenator 6. Ekwe 7. Mbanator 8. Nguru Nweke 9. Ntueke 10. Nwabosi 11. Obodoukwu 12. Obudi 13. Ogberuru 14. Okpofe 15. Okporo 16. Omuma 17. Orsu-Ihiteukwa 18. Osina 19. Umuaka 20. Umuhu Okabia 21. Urualla	1. Akokwa 2. Ekwe 3. Nwabosi 4. Okporo 5. Omuma 6. Osina 7. Umuaka
B. Owerri	1. Amuzi 2. Atta 3. Ekwereazu East 4. Enyigugu 5. Ife-Ezinihitte 6. Mbieri-Nwotueke 7. Ogbaku 8. Ogbe 9. Uvuru	1. Ekwereazu East 2. Mbieri Nwatuoke
C. Okigwe	1. Amucha 2. Amurie Omanze 3. Nsu 4. Ihitte 5. Obowu 6. Amigbo 7. Umuhi	1. Amigbo 2. Ihitte
Total	37	11

Enugu State

Agricultural Zones	Listed Rural MFBs	Selected MFBs for the Study
A. Awgu	1. Mgbowo	1. Mgbowo
B. Enugu	1. Iwollo 2. Akudiewa	1. Akudiewa
C. Nsukka	1. Igboeze 2. Umuozzi 3. Eha-Alumona 4. Orie Orba	1. Eha-Alumona 2. Orie Orba
Total	7	4
Grand Total	81	27

Source: Field Survey, 2015

Finally, a random selection of ten (10) household head respondents was made from each of the 27 communities in the selected area. In all, a total number of 270 respondents were selected, out of which 265 were successfully administered with interview schedule, and this comprised of 70 female and 195 male household heads respectively.

Data Collection Techniques

Data for the study were generated from primary and secondary sources. Primary data were collected from household head respondents and microfinance banks with the aid of interview schedule and questionnaire instruments respectively (see appendices 1 and 2). The sources of secondary data include: publications and Annual Statement of Accounts of Microfinance Banks as collated and published by the Central Bank of Nigeria in the Statistical Bulletins and other published articles on the subject.

Methods of Data Analysis

Various econometric methods were employed to achieve the study objectives. They include:

Objective 1: Logit Model and specifically Multinomial Logistic Regression model – a form of Qualitative Response Model (QRM) was applied in this objective because of the non-interval nature of the dependent variable which was coded 1, 2 and 3. It was assumed in this model that the necessary conditions behind the optimality properties of maximum likelihood estimation were met. Even though the QRMs do not lend themselves readily to regression analysis, a model was constructed that linked the decision or outcome to a set of factors at least in the spirit of regression. The approach was to analyze it in the general framework of probability model. The model specified below shows the relationship between rural peoples' participation (Y) in the rural credit market through the microfinance banks (MFBs) and the included socio-economic variables. Participation (Y) in this study objective was measured using share capital subscription and patronage of the respondents to the microfinance banks to provide an easily quantifiable proxy of outcome.

The objective was undertaken to determine the effects of socio-economic variables on the predicted probabilities of participation shown by community members in the rural credit market through the microfinance banks.

Model Specification: The Logit Model is implicitly specified as:

$$Y_i = f(X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8, X_9, X_{10}, X_{11}, X_{12}) + U$$

where i ranged from 1 and 3

$$Y_1 = 1 = \text{No share capital subscription (Naira) and No patronage (i.e. zero participation)}$$

- $Y_2 = 2 =$ Either share capital subscription (Naira) or patronage (partial participation)
 $Y_3 = 3 =$ Share capital subscription (Naira) and patronage (full participation)
 $X_1 =$ Age of respondents (years)
 $X_2 =$ Sex (dummy – male = 1; female = 0)
 $X_3 =$ Household size of respondents (Number)
 $X_4 =$ Educational Training of the respondents (years)
 $X_5 =$ Primary occupation (farming = 1; trading/business = 2; public/civil servants = 3; artisan = 4; others = 5)
 $X_6 =$ Occupational experience (years)
 $X_7 =$ Level of investment in respondents enterprise (Naira)
 Where, N1 – N100,000 = 1
 N100,001 – N200,000 = 2
 N200,001 – N300,000 = 3
 N300,001 – N400,000 = 4
 N400,001 – N500,000 = 5
 N500,001 and above = 6
 $X_8 =$ Income per annum of the respondents (Naira)
 Where N1 – N100,000 = 1
 N100,001 – N200,000 = 2
 N200,001 – N300,000 = 3
 N300,001 – N400,000 = 4
 N400,001 – N500,000 = 5
 N500,001 and above = 6
 $X_9 =$ Money trapped in any failed bank in the past (Yes = 1; No = 0)
 $X_{10} =$ Accessibility to the bank (Yes = 1; No = 0)
 $X_{11} =$ Primary promoters of the bank (community town union = 1; otherwise = 0)
 $U =$ Error term

Objective 2 and 3: Data generated on objectives 2 and 3 were analyzed using descriptive statistics such as means and percentages to highlight the level of outreach and quality of services of microfinance banks and their effect on the agricultural sub-systems respectively.

Objective 4: This objective was analyzed using both descriptive and inferential statistics. Descriptive statistics such as means and percentages were used to analyze the data generated relative to the level and composition of deposit mobilized and credit extended to the rural populace. Regression analysis was used to capture the change (growth or decline) in the amount of deposits and credit extended to the rural people through microfinance banks as the length of business experience of the microfinance banks increases.

Model Specification (a): The regression was ran using four functional models (linear, exponential, semi-log and double-log) to capture the relationship between the length of business experience of the microfinance banks and the amount of deposits mobilized and credit extended to the rural populace by the microfinance banks as their age increases over the years (2005 – 2012). Double-log was chosen based on a priori expectation in terms of signs and magnitude of the coefficients, the number of significant variables and the R^2 value. The regression model was specified below:

$$Y = a + bX_t + e$$

where,

Y = estimated value of deposit mobilized by the microfinance banks for the years under consideration

a = intercept (the deposit level at the inception of the microfinance bank)

b = regression coefficient (rate of change in the value of Y as the length of business experience of the microfinance bank increases)

X_t = Age (length of business experience) of the microfinance banks

e = stochastic error term

Model Specification (b): Similarly, the estimated change in the amount of credit extended to the rural populace as the length of business experience of the microfinance banks increases is specified thus:

$$Y = a + bX_t + e$$

Where,

Y = estimated value of credit extended

a = intercept (the credit level at the inception of the microfinance bank)

b = regression coefficient (rate of change in the value of Y as the length of business experience of the microfinance bank increases)

X_t = Age (length of business experience) of the microfinance banks

e = stochastic error term

Objective 5 and 6: Data generated on these objectives were also analyzed using descriptive statistics to highlight the perception of the rural people on their relationship with the microfinance banks; contribution of the banks to the flow of funds in the area; and perceived constraints to rural financial intermediation through microfinance banks.

Results and Discussions

Socio-Economic Characteristics of the Respondents

Age of Respondents: The frequency distribution of respondents according to age is presented in table 2 below:

Age of Household Head (Yrs)	Frequency	Percentage (%)
Less than 40	16	6
41-50	70	26
51-60	93	35
Above 60	86	33
Total	265	100

Source: Field Survey, 2015

The age distribution of respondents showed that majority of the respondents fall between 51 and 60 years of age. This age group accounted for about 35% of the total respondents. This was followed by the age group of between 60 years and above that accounted for about 33%. The least in the structure of age distribution was the age group of less than 40 years of age that recorded about 6%. The mean age of the respondents was approximately 56 years. The implication of this result is that majority of household heads in the rural areas covered by this study are at different stages of their productive lives and are consequently considered to be active economic actors in the rural economy.

Sex of Respondents: The frequency distribution of respondents according to age is presented in table 3 below: The table indicates that about 74% of the respondents were males and the female respondents accounted for about 26%. This infers that male household heads predominate female household heads in the study.

Table 3 – Sex of Respondents

Sex	Frequency	Percentage (%)
Male	195	74
Female	70	26
Total	265	100

Source: Field Survey, 2015

Household Size of Respondents: The frequency distribution of respondents according to household size is presented in table 4 below: The table showed that about 50% have a family size of between 6 and 8 persons. This was followed by about 37% that have family size of between 3 and 5. The modal household size was 6 persons.

Table 4 – Household Size of Respondents

Household Size	Frequency	Percentage (%)
<3	15	6
3-5	98	37
6-8	132	50
>8	20	7
Total	265	100

Source: Field Survey, 2015

Educational Training of Respondents: The frequency distribution of respondents according to number of years of formal education is presented in table 5 below: The result showed that a majority, about 53% of the respondents have educational training ranging between 1-6 years. This was followed by about 28% that have between 7-12 years educational training. Those with educational training for 13 years and above accounted for 19% of the total respondents.

Table 5 – Educational Training of Respondents

Number of Years of Educational Training	Frequency	Percentage (%)
Zero	-	-
1-6	140	53
7-12	74	28
>13	51	19
Total	265	100

Source: Field Survey, 2015

The implication of this result is that more than 50% of the household heads respectively had primary educational training for varying periods ranging between 1-6 years, while about 28% accounted for those that had secondary educational training of varying number of years. About 19% accounted for those that have higher educational training of different nature.

Primary Occupation of Respondents: The frequency distribution of respondents according to primary occupation is presented in table 6 below: The table indicates that 40% of the respondents have trading/business as their primary occupation. This was followed by about 32% that indicated farming as their primary occupation. Public/Civil Servants accounted for about 23% and Artisans recorded about 5%. This result showed a shift from an earlier study which states that farming predominate every other occupation primarily embarked upon by the rural household heads. This development may be as a result of how the sample for this study was chosen.

Table 6 – Primary Occupation of Respondents

Primary Occupation	Frequency	Percentage (%)
Farming	86	32
Trading/Business	106	40
Public/Civil Servant	60	23
Artisan	13	5
Total	265	100

Source: Field Survey, 2015

Occupational Experience of Respondents: The frequency distribution of respondents according to occupational experience is presented in table 7. The table showed that about 38% of the respondents have occupational experience of between 21 and 30 years. This was followed by respondents that have occupational experience of between 31 and 40 years that accounted for about 35%. Those that fall under the class about 50 accounted for about 4% of the respondents.

Table 7 – Occupational Experience of Respondents

Occupational Experience in Years	Frequency	Percentage (%)
<20	31	11
20-30	100	38
31-40	92	35
41-50	32	12
>50	10	4
Total	265	100

Source: Field Survey, 2015

Investment Level of Respondents: The frequency distribution of respondents according to investment level is presented in table 8. The table showed that about 37% of the respondents fall within the class of less than N100,000. This was followed by those that fall within the class of between N100,001 and N200,000 which accounted for about 30% of the total respondents. The least in the structure of investment level distribution is the investment level class of N500,000 and above which accounted 3%. One can infer from this result that most of the respondents' enterprises are operating at small and medium scale levels.

Table 8 - Frequency Distribution of Respondents according to Investment Levels

Levels of Investment (NGN Naira/USD180)	Frequency	Percentage (%)
Less than 100,000	98	37
100,001-200,000	80	30
200,001-300,000	29	11
300,001-400,000	33	12
400,001-500,000	18	7
Above 500,000	7	3
Total	265	100

Source: Field Survey, 2015

Income Level of Respondents: The frequency distribution of respondents according to income level is presented in table 9. The table showed that about 33% of the respondents have income level of less than N100,000. This was followed by the income level class of N500,000 and above which accounted for 19%. The least was the income level class of between N200,001 and N300,000 which accounted for 11%. The implication of this result is that about one-third of the respondents have annual income of less than N100,000 and this provides an easily quantifiable proxy to the poverty level assessment of the respondents.

Table 9 - Frequency Distribution of Respondents according to Income Levels

Level of Income (=N=) NGN Naira/USD180)	Frequency	Percentage (%)
<N100,000	87	33
100,001-200,000	24	9
200,001-300,000	30	11
300,001-400,000	40	15
400,001-500,000	34	13
>500,000	50	19
Total	265	100

Source: Field Survey, 2015

Effect of Socio-Economic Factors on Rural Peoples' Participation in the Rural Credit Market through Micro-Finance Banks

This objective of the study was undertaken to examine the effects of socio-economic variables on the predicted probabilities of participation exhibited by the rural household heads in the rural credit market through the microfinance banks. Participation which was the dependent variable 'Y' was measured using share capital subscription and patronage of the household heads to the microfinance banks as the easily quantifiable proxy of outcome, while the explanatory variables ('Xs') were the included socio-economic variables namely: age, sex, household size, educational training, primary occupation, occupational experience, level of investment, level of income, money trapped in any failed bank in the past, accessibility to the bank, and primary promoters of the microfinance banks.

Participation was classified either zero, partial or full. It was classified zero when the household heads indicates no share capital subscription and patronage respectively to the microfinance bank. When the household head indicates either share capital subscription or patronage to the microfinance bank, it was classified as partial participation. It was full participation when the household head indicates both share capital subscription and patronage to the microfinance bank.

The frequency distribution of respondents according to levels of participation in microfinance banking business is presented in table 10. The table showed that about 44% of the household heads did not participate in

anyway. This was followed by about 36% that showed full participation. The least in the structure of participation were those that showed partial participation which accounted for 20%.

Table 10 - Frequency Distribution of Respondents According to Levels of Participation in Microfinance Banking Business

Participation	Male		Female		Total	
	Frequency	%	Frequency	%	Frequency	%
Zero participation	73	28	43	16	116	44
Partial participation	33	13	19	7	52	20
Full participation	89	33	8	3	97	36
Total	195	74	70	26	265	100

Source: Field Survey, 2015

Table 10 also shows that about 3% of the female household heads indicated full participation, while about 7% and 10% of female household heads indicated partial and zero participation respectively. The above results implies that microfinance banks even though have made some impact, but have not adequately bridged the gap that exists in rural credit market as more than 40% of the respondents are not participating at all and about 20% showed partial participation. The result further infers that female household heads are not actively participating in the rural credit market through microfinance banks as they were pre-dominated by their male counterparts as the results showed that about 61.4% of the female household heads are not participating at all while about 38.6% of them are participating. On the other hand, about 37.4% of the male household heads are not participating while about 62.6% of them are participating.

The economic model applied in parameter estimation was multinomial logistic regression, and the outcome $y = 1$ (i.e zero participation) was the comparison group used to compare the outcomes $y = 2$ (partial participation) and $y = 3$ (full participation) respectively. The results are presented in table 11.

Table 11 – Results of Multinomial Logistic Regression Analysis

Participation	y=2		y=3	
	RRR	Z	RRR	Z
Variable				
Age	1.1103	1.28	1.2035	2.16*
Sex	2.5531	1.46	24.7536	3.68*
household Size	.4662	-3.61*	.7084	-1.88
education	1.1383	1.21	1.6866	4.55*
experience	.9495	-0.73	.9080	-1.27
motrap	1.6017	0.41	1.6983	0.42
priproter	4.5874	1.52	19.3830	2.38
prioc1	.1767	-1.63	1.3830	0.21
Prioc2	.3812	-0.98	3.3999	0.82
Prioc3	.0362	-2.14*	5.0879	0.91
Levint2	3.3184	1.33	18.9471	3.77*

Levint3	11.3278	1.68	163.6743	3.77*
Levint4	4.2364	1.27	16.7324	2.97*
Levint5	195.2583	3.90*	209.1121	3.96*
Inco2	5.8177	1.87	3.85e-16	-0.00
Inco3	51.1360	3.59*	.5311	-0.57
Inco4	50.5524	2.98*	.8998	-0.09
Inco5	37.6984	2.48*	7.9504	1.53

Outcome y=1 is the comparison group; * = significant at 0.05% level

Statistics: loglikelihood = .104.5; LR $\chi^2(36)$ = 346.96; R^2 = .624; N = 265

Source: Computed by the Researchers

With an estimated loglikelihood of -104.5, it shows that the overall multinomial logistic regression equation is significant at the 5% level and that some independent variables in the regression equation affect the dependent variable. Also, the (R^2) indicates that 62.4% of the variability in the dependent variable is explained by the included regressors.

The model's results showed that the outcomes y=2 and y=3 are both influenced by all the regressors as indicated by the Relative Risk Ratios (RRR) in table 11 and y=1 as the comparison group. However, with respect to participation (y=2), investment level 5 (N400,001-N500,000), income level 3 (N200,001-N300,000), income level 4 (N300,001-N400,000) and income level 5 (N400,001-N500,000) are the regressors that not only showed significance at the 5% level but have positive influence on respondents in this group. Also, household size and primary occupation 3 (public/civil servants) are not only significant but indicated negative influence on the respondents in this group (y=2). It is expected that participation will increase as more households become headed by civil/public servants because of their knowledge, but this negative influence indicated by the respondents in this group may be as a result of non-payment of salaries of workers by the employers and/or irregular payment of salaries and this does not promote participation.

With respect to the full participation (y=3), the model's results showed that full participation is positively and significantly explained by age, sex, education, primary promoters of the banks, investment level 2 (N100,001-N200,000), investment level 3 (N200,001-N300,000), investment level 4 (N300,001-N400,000) and investment level 5 (N400,001-N500,000) at 0.05% level. This result is expected as age, sex and education positively affect ones participation and appreciation of any viable project/venture. Other things being equal, microfinance banks when seen to be promoted and owned by the community in general leads to more participation in terms of share capital subscription and patronage than when promoted and owned by one single rich individual. However, income levels are positive but not significantly related to full participation. It is expected that higher income

will significantly lead to increased full participation but this non-significant influence differed from a prior expectation. It is possible that when higher income is matched with increase household size, the end results will be back of savings and poor or no capital accumulation amongst others and these negate full participation.

In view of the fact that Chi-square statistics is significant at the 5% level of significance, it is accepted that socio-economic factors have significant effect on rural people's participation in rural credit through microfinance banks.

Level of Outreach and Quality of Services of Microfinance Banks (MFBs)

Outreach and quality of services of the MFBs in the study area were measured by a hybrid index comprising several indicators such as the number of clients by sex, the value and number of deposit accounts by sex, the loan portfolio and its annual growth as well as the unit transaction costs of the MFBs. The performance of the sampled MFBs was evaluated based on the above criteria to provide an easily quantifiable proxy of their impact on the rural people.

Important Features of the Studied Microfinance Banks

Analysis of data collected showed that average paid up share capital of the studied MFBs was N8.6 million. The average lending rate was about 60% per annum, while the deposit rates for savings and term deposits indicated an average figure of 12.5% and 16% per annum respectively. Average loan duration for the MFBs was found to be approximately 4 months and loans equal and above N50,000 were collateralized. All these have implication on the deposit mobilization and credit operations of the MFBs.

Firstly, the average paid up share capital of N8.6 million indicated in the study suggest that the highest amount of credit granted to any applicant was N860,000 as banks were not allowed to give more than 10% of its paid up share capital unimpaired by losses to any single customer as credit. Also, interest rates (lending and deposit rates) represent the cost of credit, and high interest rate implies that credit is costly or more expensive to use as indicated in this study and does not promote credit demand, while a low interest rate indicates that capital is relatively cheap, and all these affect deposit and credit operations of the banks accordingly. Furthermore, average loan duration of 4 months indicated in this study is considered short and will not promote capital accumulation and effective loan repayment by the customers/borrowers.

Number and Annual Growth Rate of Depositors by Types of Account and Sex 2005 – 2012

An attempt is made in this study to capture the average number of depositors per MFB by types of account and sex and their annual growth rate. The inference is that MFBs are assumed to be impacting positively on rural financial intermediation if there were rapid increases over the years in the number of depositors and if the structures of the growth reflected reasonable female participation. The frequency distribution of depositors according to types of account and sex and their annual growth rate is presented in table 12, 13 and 14. The tables showed that the average number of depositors per MFB in 2005 was 308 and this number rose to 1217 in 2012. The annual growth rate of depositors was 47.4% in 2006. This declined to 10.4% and 5% in 2006 and 2007 respectively. It rose again from 5% in 2008 to 44.7% in 2009 and fluctuated between 16.9% and 3% in 2010 and 2012. The average annual growth rate was 17.5%.

Tables 12, 13 and 14 further showed that male depositors predominates the female depositors in the three various accounts. In 2005, the number of males that operated Savings Account accounted for about 44% of the total depositors, while the number of females that operated Savings Account accounted for about 29% and in the year 2012, male and female Savings Account holders numerically accounted for about 43% and 28% respectively of the total number of depositors. The males showed more dominance in Current and Term Account respectively and this infers that male depositors are more business oriented than female depositors as Current and Term Accounts are known to be operated to facilitate business transactions. Generally, the inference drawn here was that the MFBs made more market penetration on the male household heads than female household heads.

Table 12 – Average Value of Deposits by Type of Accounts and Sex 2005 – 2012
Savings Account (=N= '000) NGN Naira/USD180)

Year	Male	%	Female	%	Org/Corp	%
2005	113,102.34	53.55	28,325.64	13.41	10,000.00	4.73
2006	137,613.25	50.8	31,430.85	11.6	24,400.00	8.27
2007	180,005.31	64.3	32,005.00	11.43	16,805.00	6.00
2008	226,143.07	58.4	53,738.27	13.87	30,000.00	7.74.
2009	299,471.03	67.1	55,663.56	12.47	30,000.00	6.72
2010	302,101.23	47.5	131,458.56	20.69	60,000.00	6.44
2011	447,144.23	51.3	161,686.07	18.54	90,000.00	10.32
2012	798,991.49	68.7	103,501.81	8.92	50,000.00	4.31

Source: Field Survey, 2015

Table 13 – Average Value of Deposits by Type of Accounts and Sex 2005 – 2012
Current Account (=N= '000) NGN Naira/USD180)

Year	Male	%	Female	%	Org/Corp	%
2005	329,550.11	11.77	492,000.21	1.76	5,000.25	0.02
2006	451,717.05	16.67	816,000.33	3.01	12,000.55	0.04
2007	329,550.10	11.77	492,000.22	1.76	5,000.32	0.02
2008	453,041.05	11.69	100,500.05	2.59	-	0.00
2009	372,230.03	8.34	800,150.00	1.79	15,000.02	0.03
2010	637,217.91	10.03	172,521.41	2.72	250,000.00	0.39
2011	730,819.23	8.38	200,114.55	2.29	150,000.00	1.72
2012	787,325.72	6.79	251,720.50	2.17	182,510.03	1.57

Source: Field Survey, 2015

Table 14 – Average Value of Deposits by Type of Accounts and Sex 2005 – 2012
Term Account (=N= '000)

Year	Male	%	Female	%	Org/Corp	%
2005	101,832.62	4.82	-	0.00	50,000.32	2.37
2006	190,000.02	3.29	15,000.88	0.55	55,000.09	2.03
2007	92,000.04	3.29	-	0.00	40,000.72	1.43
2008	171,500.05	4.43	-	0.00	50,000.52	1.29
2009	92,359.80	2.07	50,000.13	0.11	60,000.45	1.34
2010	413,575.42	6.51	200,000.21	3.31	150,000.01	2.36
2011	452,463.72	5.19	50,000.00	0.57	150,000.22	1.72
2012	635,484.01	5.48	-	0.00	220,000.00	1.9

Source: Field Survey, 2015

Loan Portfolio and its Annual Growth

The result on loans and advances is presented in table 15. The table indicates that average annual loans/advances figure rose astronomically from N128,562 in 2005 to N213,866,760 in 2012 at an annual growth rate of 681% and thereafter followed a downward trend up to 2007 when annual growth rate was 54.9%. It further decreased to a negative figures of -4.1, -12.3% and -26.8% in 2008, 2009 and 2010 respectively. It increased again from -26% in 2010 to 61.2% in 2011 and dropped to 29% in 2012.

Similarly, the number of beneficiaries rose from 85 in 2005 to 302 in 2012 at an annual growth rate of 7% in 2006 and this increased to 30.1% in 2007. It decreased from 30.1% in 2006 down to 4.6% in 2010 and rose again to 16.1 in 2011 and further decreases to 4.5% in 2012.

Table 15 further shows that male beneficiaries consistently predominates their female counterparts in number with respect to the loans/advances within the period of study. The male beneficiaries accounted for approximately 73% of the total beneficiaries each year within the period under review. The result suggests that the MFBs have not made much penetration to the women and consequently their credit problems still remain largely unsolved by the MFBs.

Table 15 – Average Annual Loans/Advances and Number of Beneficiaries by Sex

Year	Loans/Advances (=N= Million NGN Naira/USD180)	Annual Growth Rate	No. of Male Beneficiaries	%	No. of Female Beneficiaries	%	Total Beneficiaries	Annual Growth Rate of Beneficiaries
2005	143,643.95	0	189	79.41	49	20.59	238	0
2006	163,877.18	4.1	175	79.55	45	20.45	220	15.7
2007	171,042.13	5.9	150	78.95	40	21.05	190	15.8
2008	110,354.49	-23.0	130	79.27	34	20.73	164	30.1
2009	331,356.82	17.6	92	73.02	34	26.98	126	20.0
2010	119,668.20	-6.9	80	76.19	25	23.81	105	15.3
2011	222,966.76	43.0	75	82.42	16	17.58	91	7.0
2012	285,624.77	14.7	69	81.17	16	18.83	85	-8.1

Source: Field Survey, 2015

Unit Transaction Costs of the Studied Microfinance Banks (MFBs)

An evaluation was made to establish the unit transaction costs of the sampled MFBs for the period 2005-2012. This was because transaction costs help determine nominal interest rates either directly through competitive market forces or through their influence on the administrative setting of lending rates and these among other things affect market penetration and quality of services of the MFBs which are major criteria for assessing the impact of any rural financial institution.

Table 16 – Unit Transaction Costs of the Sampled Microfinance Banks (MFBs)

Year	Unit Transaction Costs (%)
2005	2.53
2006	1.97
2007	1.88
2008	1.92
2009	1.89
2010	1.82
2011	2.06
2012	2.51

Average Unit Transaction Costs for the period = 2.65%

Source: Field Survey, 2015

The result in table 16 showed the unit transaction costs of the sample MFBs for the period 2005-2012. The outstanding figure of unit transaction costs recorded in 2005 could be explained by the initial administrative costs recorded by the MFBs as most of the banks sampled converted to Microfinance Banks in 2005. The variations in other years may be as result of the yearly variations in operating environment of the MFBs.

The unit transaction costs of the MFBs is expected to translate to a modest lending rates and more attractive deposit rates because of its influence on nominal interest rates determination, but surprisingly, the study showed a contrary result. The study showed that MFBs average nominal lending rate was as high as 60% per annum and their average deposit rates for Savings and Term Deposit were as low as 12.5% and 16% respectively. The implication of this is that MFBs mobilize funds at a very cheap rate from

members of their host communities and lend to them at exorbitant rates and this may be one of the reasons for the very low patronage by the people as shown in the study.

Effect of Microfinance Banks on Agricultural Sub-System

The rural economy in Nigeria is predominantly agricultural and its development requires credit and circumstantial evidence has shown that agriculture has grown rapidly where institutional credit has expanded more quickly (Desai and Meller, 1993). One of the objectives of the study was to capture the effect of MFBs on agricultural development in the study area. The result is presented in Table 17.

Table 17 – Frequency Distribution of Farmers Perceived Effect of MFBs on Agricultural Sub-System

Level of Perception	Input Delivery	%	Agric Production	%	Agric Processing and Marketing	%
Increased	-	-	11	2.79	3	3.5
Decreased	-	-	-	-	-	-
No change	86	100	75	87.2	83	96.5
Total	86	100	86	100	86	100

Source: Field Survey, 2015

Table 17 shows that 100% of the respondents perceived that MFBs had no effect on agricultural input delivery sub-system. Also about 3% of the respondents have the perception that MFBs has helped to increase their production level, while about 87% of the respondents indicated that MFBs had no effect on their production level.

It was also indicated from the table that about 3% of respondents perceived that MFBs had caused their agro-processing marketing activities to increase. The above results agree with Aryestey (2007) which reported that institutional credit sources avoid rural agricultural lending because of their perception of roles and risks caused by inadequate information and absence of contract enforcement mechanism.

Frequency Distribution of Loan Beneficiaries by Volume and Occupation

The frequency distribution of loan beneficiaries by volume and occupation is presented in table 18. The results as presented in the table further collaborates the fact that institutional credit sources avoid rural agricultural lending. The table shows that majority (40.8%) of the respondents that benefitted from MFBs loans of equal or less than N100,000 were the civil/public servants, followed by traders/businessmen which accounted for 35.71% while those on agriculture recorded 19.05%. The table further shows that only traders/businessmen got loans above N500,000

per person. This result is not surprising as the MFBs would naturally prefer extending credit facilities to the civil/public servants that have domiciled their salary accounts to them and consequently effect repayments of facilities granted to them through monthly deductions from salaries as contained in their respective facility agreements. Similarly, MFBs may have preferred lending to commercial sector than agricultural sector because of high risk involved and slow and low returns associated with most agricultural ventures. The inference drawn from this finding is that MFBs have not adequately addressed the credit needs of the agricultural sector of the rural areas.

Table 18 - Frequency Distribution of Loan Beneficiaries by Volume and Occupation

Level of Loan (N'000)	Farming	%	Trading/ Business	%	Civil/Public Servant	%	Artisan	%	Total	%
1-100	8	19.1	15	35.7	17	40.5	2	4.8	42	100
101-200	1	12.5	7	87.5	-	-	-	-	8	100
201-300	2	33.3	4	86.7	-	-	-	-	6	100
301-400	-	-	2	100	-	-	-	-	2	100
401-500	-	-	3	100	-	-	-	-	3	100
501-above	-	-	1	100	-	-	-	-	1	100
Total	11	17.7	32	51.6	117	27.4	2	3.2	62	100

Source: Field Survey, 2015

Perception of Respondents of their Relationship with the Microfinance Banks (MFBs)

Table 19 shows the perception of respondents of their relationship with MFBs and the effect of MFBs credit facilities on their socio-economic conditions. The result from the table shows that about 21% of the total respondents variously benefitted from MFBs credit facilities within the period under review. An attempt is made in this section to capture the perception of credit beneficiaries on the effect of MFBs credit facilities on their socio-economic conditions. Table 19 shows that though all the credit beneficiaries reported that their level of investment improved, about 64% of them perceived that their income improved, while 67.74% indicated that their savings improved. Similarly, about 24% and 52% of the credit beneficiaries perceived that their healthcare conditions and education of their children improved respectively. It is important to note that about 76% of the credit beneficiaries reported that their healthcare condition showed no difference even after the credit facilities.

From this result one can infer that though the credit facilities extended to the beneficiaries may have reasonably helped to improve their investment, income, savings and children's education but these were not translated to an improved health care conditions. This may be as a result of unavailability of affordable healthcare systems in the rural areas amongst other reasons. Ordinarily, credit would increase family income, and by extension their standard of living and economic base as long as the rate of return on assets is higher than the rate of interest on loan. The higher the share of loan in total capital, the higher will be the growth of income from rural household if the rate of return on assets is higher than the rate of interest and marginal propensity to consume is less than one.

Table 19 – Respondents (Loan Beneficiaries) Perception of the Effect of MFBs' Credit Facilities on their Socio-Economic Conditions

	Income	%	Level of Investment	%	Savings	%	Healthcare	%	Education of Children	%
Improved	40	64.5	62	100	42	67.7	15	24.2	32	51.6
Worsened	10	16.1	-	-	10	16.1	-	-	-	-
No Difference	12	19.4	-	-	10	16.1	47	75.8	30	48.4
Total	62	100	62	100	62	100	62	100	62	100

Source: Field Survey, 2015

Constraints to Rural Financial Intermediation through Microfinance Banks (MFBs)

An attempt is made in this section to identify the constraints to rural financial intermediation through MFBs. The perceptions of the MFBs as well as that of the respondents (customers) respectively were used as easily quantifiable proxy for this purpose.

The frequency distribution of MFBs according to their perceived constraints to rural financial intermediation is presented in table 20. The result showed that all the MFBs (27) cited limited geographical area of operations and scope of service delivery respectively as well as the non-negotiability of MFBs instruments as constraints to rural financial intermediation through MFBs. These constraints restrict the flow of funds from the surplus areas to deficit areas and thus impact negatively on the survival and profitability of the MFBs. A majority, 21 out of the 27 MFBs perceived that high tariff and rates charged by the commercial banks and government agencies on the MFBs and delays in granting approvals for Annual General Meetings (AGMs), change of board membership, change in location, etc are constraints to rural financial intermediation through MFBs. These are instrumental to the loss of high net-worth customers often experienced by the MFBs to commercial banks. Irregular monitoring/supervision by the appropriate authorities and inconsistency in

government policies were also perceived by 15 and 10 MFBs respectively as constraints to rural financial intermediation through MFBs.

Table 20 - Frequency Distribution of MFBs Perceived Constraints to Rural Financial Intermediation

Constraints	No. of Banks that perceived the constraints		No. of Banks that did not perceive the constraints		Total	
	Frequency	%	Frequency	%	Frequency	%
Operational Constraints: unite banking, limited geographical area of operation	27	100	-	-	27	100
Limited scope of service delivery (non-participation in FOREX, international money transfer and cheque clearing	27	100	-	-	27	100
Non-negotiability of MFBs instruments as a result of regulatory limitation	27	100	-	-	27	100
High tariff and rates by commercial banks and government agencies	21	78	6	22	27	100
Apathy by the government institutions and high net-worth customers towards MFBs	18	67	9	33	27	100
Regulatory/Supervisory constraints: irregular monitoring/supervision by the appropriate authorities – Central Bank of Nigeria and Nigeria Deposit Insurance Corporation	15	56	12	44	27	100
Inconsistency in government policies: frequent changes in policies, tariff plans, etc	10	37	17	63	27	100
Delays in granting regulatory approvals for Annual General Meetings, change in board membership, change in location, etc	21	78	6	22	27	100

Source: Field Survey, 2015

Frequency Distribution of Customers Perceived Constraints to Rural Financial Intermediation through Microfinance Banks (MFBs)

The frequency distribution of respondents (customers) according to their perceived constraints to rural financial intermediation through MFBs is presented in table 21.

Table 21 – Frequency Distribution of Customers Perceived Constraints to Rural Intermediation through Microfinance Banks (MFBs)

Constraints	Respondents that perceived the constraints		Respondents that did not perceive the constraints		Total	
	Frequency	%	Frequency	%	Frequency	%
High lending rates and very low interest payment on savings and fixed deposit accounts	62	100	-	-	62	100
Low quality and/or inexperienced staff	25	40	37	60	62	100
Inability of MFBs to grant reasonable credits due to low capitalization and short duration of the loan period	47	76	15	24	62	100
Inability to offer 'credit plus services' like training, advisory services, etc	18	29	44	71	62	100

Source: Field Survey, 2015

The result in table 21 showed that all the respondents (62) perceived high lending charges and very low interest payment on savings and fixed deposit by the MFBs as constraints to rural financial intermediation through MFBs. Also, a majority, 47 out of 62 respondents perceived the inability of MFBs to grant reasonable credits due to low capitalization and short duration as a constraint. The result further showed that poorly trained/inexperienced staff and inability of MFBs to offer 'credit plus services' like training, advisory services, etc were perceived by 25 and 18 respondents respectively as constraints to rural financial intermediation through MFBs.

Summary of Findings

This study was conducted to assess the impact of rural credit facilities of Microfinance Banks (MFBs) on the rural financial market and on the rural economy with analytical focus on South Eastern States of Nigeria comprising of Abia, Anambra, Ebonyi, Enugu and Imo. MFBs were expected to bridge the gaps that exist in the rural credit market occasioned by the conventional banks and informal sources of credit in the rural credit market. This is to be achieved by mobilizing rural savings and providing access to credit to the rural economic operators that need credit for investment. The extent of the actualization of this crucial task and its impact on the rural economy were evaluated in this study.

The summary of the findings are as follows:

- a) Majority of the respondents, about 44% did not have any form of participation in the MFBs while about 36% and 20% have full and partial participation respectively with the MFBs.
- b) Male respondents showed overwhelming dominance with respect to participation in the MFBs at all levels. The study showed that MFBs have made more impact on the males than the females on all the indicators captured.
- c) Unit transaction costs of MFBs were found to be modest (2.66) but contrary to expectation did not translate to attractive lending and deposit rates. While lending rate is as high as 60% per annum, rates on deposits were as low as 12.5% per annum.
- d) MFBs showed preference in extending credits to other sectors especially commerce than agriculture.
- e) Deposits mobilized from the rural communities by MFBs were siphoned out of the communities by way of fixed deposit with the commercial banks usually located outside the communities, thus defeating the idea of financial intermediation within the communities.
- f) Beneficiaries of MFBs credits believed that their investment, income and savings levels as well as their children's education were improved marginally while their healthcare condition was not improved.

Conclusion

MFBs are micro financial intermediaries created to assist the grassroots people especially the rural poor to live above poverty level and expand their income levels on a sustainable basis by meeting their credit requirements and providing other wide range of financial services. The performance of MFBs as rural financial intermediaries rests mainly on outreach as the MFBs by their concepts and design are self-sustaining financial institutions.

It is evident from the study that although MFBs have made modest impact with respect to deposit mobilization from the rural areas, there still exist wide areas for improvement with respect to their market penetration efforts, participation of the rural people especially the womenfolk and credit extension to the rural populace at affordable rates.

Recommendations

Based on the findings, the following recommendations are made:

- a) Effective mobilization of the rural people especially the women for full participation in the MFB business through public enlightenment, seminars/workshops and community conferences.

- b) Instituting gender equalization policies that create incentives for increased lending to women such as subsidized lending to women through on-lending facilities from government.
- c) Instituting sector balancing or equalization policies that create incentives for increased lending to agricultural sector such as subsidized lending rate for agricultural purposes.
- d) Evolving a clear rural deposit mobilization/credit policy that spells out a certain percentage (at least 40%) of the total deposits mobilized by the MFBs from their host communities that must be used by the MFBs to service the deficit economic units of such communities. This will reduce the practice of siphoning up to 90% of rural savings by MFBs to finance credit operations in urban centres through commercial banks where they (MFBs) have placements or fixed deposits.

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Appendix 1

Research Questionnaire

Impact of Rural Credit Facilities of Micro-Finance Banks on Poverty Alleviation – The Nigerian Experience

Section A – Socio-Economic Characteristics of Respondents

1. Age of Household Head (Years) (a) Less than 40 [] (b) 41-50 [] (c) 51-60 [] (d) Above 60 []
2. Sex (a) Male [] (b) Female []
3. Household Size (a) Less than 3 (b) 3-5 [] (c) 6-8 [] (d) Above 8 []
4. Educational Training (No. of Years of Educational Training: (a) Zero [] (b) 1-6 [] (c) 7-12 [] (d) Above 13 []
5. Primary Occupation: (a) Farming [] (b) Trading/Business [] (c) Public/Civil Servant [] (d) Artisan []
6. Occupational Experience (in years) (a) Less than 20 [] (b) 20-30 [] (c) 31-40 [] (d) 41-50 [] (e) More than 50 []
7. Investment Level: (a) Less than N100,000 [] (b) N100,001-N200,000 [] (c) N200,001-N300,000 [] (d) N300,001-N400,000 [] (e) N400,001-N500,000 [] (f) Above N500,000 []
8. Income Level: (a) Less than N100,000 [] (b) N100,001-N200,000 [] (c) N200,001-N300,000 [] (d) N300,001-N400,000 [] (e) N400,001-N500,000 [] (f) Above N500,000 []

Section B: Socio-Economic Factors that influence Rural Peoples' Participation in the Rural Credit Market through Micro-Finance Banks

9. Level of Participation in Microfinance Banking Business: (a) Zero participation [] (b) Partial participation [] (c) Full participation []
10. Perceived Effect of MFBs on Agricultural Sub-System (a) Increased (b) Decreased [] (c) No change
11. Perceived Effect of MFBs on Socio-Economic Conditions (a) Improved [] (b) Worsened [] (c) No difference []
12. Perceived constraints to rural financial intermediation (a) High lending rates and very low interest payment on savings and fixed deposit accounts [] (b) Low quality and/or inexperienced staff [] (b) Inability of MFBs to grant reasonable credits due to low capitalization and short duration of the loan period [] (d) Inability to offer 'credit plus' services like training, advisory services, etc []

Appendix 2

Interview Schedule

1. What are the key challenges faced by your bank in the area of rural financial intermediation, state briefly?

2. How does your organization deal with these challenges, state briefly?_____
3. What is the level of participation of rural people in Microfinance banking?

4. What is the level of participation of women in Microfinance banking in the rural areas?

5. What are the likely constraints to women in rural credit participation through Microfinance banks?

6. How can women be assisted to participate more effectively in rural credit through Microfinance banking?

7. What can government do to encourage rural credit intermediation through Microfinance banking?
